Briefing for the Public Petitions Committee

Petition Number: PE01649

Main Petitioner: Jennifer Lawrie

Subject: Council tax bands

Calls on the Parliament to urge the Scottish Government to revalue all council tax bands in line with changes to the property market since 1991.

Background

Council Tax is the system of local taxation that is used to part-fund local authorities. It was introduced in 1993 to replace the Community Charge (known as the “poll tax”) and, until 2017, remained largely unchanged since its introduction.

The rate of tax payable is based on the value of residential property in April 1991, and the amount that households pay depends on their band (A to H). Local authorities set the Band D rate, and other bands are calculated as a set ratio to the Band D rate.

Council tax valuations are set by the Assessors through the Scottish Assessors Association (SAA). On the introduction of Council Tax, the Assessors were required to produce a Council Tax Valuation List and to maintain it thereafter. According to the SAA, there are currently no plans for a Council Tax Revaluation and all new properties are added to the list on the basis of 1991 levels of valuation. The Scottish Government said in evidence to the Local Government and Communities Committee (detailed later in this briefing) that because of the “potential impact on households and the administrative cost it would incur”, it had no plans to revalue properties for Council Tax purposes.

In 2015, following a recommendation by the Parliament’s Local Government and Regeneration Committee (2014), the Scottish Government and COSLA established the Commission on Local Tax Reform (“the Commission”). The Commission reported in December 2015. As part of this work, both the valuation of properties and the banding model were explored.

In looking at the valuation of properties, the Commission reported—
“The present Council Tax, based on 1991 values, means people living in properties that have increased in value by more than the Scottish average since 1991 are likely to be paying less than they should, whilst others in properties whose value has not kept pace with the Scottish average are paying more than they should. Only properties where values have grown in line with the Scottish average are paying what they should. The Scottish Assessors Association (SAA) provided convincing evidence that they are able to apply fair and accurate, but nevertheless hypothetical, 1991 valuations to new properties. However, the need to do so – especially as some types of property did not exist in 1991 – is a concern.”

They went on to model, based on a sample of 700,000 properties, the impact that revaluation might have—

“Although we recognise that computer models alone will never be able to accurately value every property, the findings from this analysis are instructive, suggesting that 57% of properties in Scotland would have changed Council Tax band if revaluation had taken place in 2014, with roughly an equal amount moving up as moving down. Around 44% of properties would have moved up or down by one band, 11% would have moved up or down by two bands, and around 2% would have moved up or down by three bands or more. 43% of properties would have remained in the same band.”

The Commission discussed the potential for revaluation with the SAA, who estimated that—

“... a revaluation exercise to a revised system of property valuation bands could be achieved at a cost of £5.5 million to £7 million and take two to three years. This would require additional resources, which could be minimised if this exercise could be achieved around the workload associated with the 2017 revaluation of business property. An exercise to revalue properties to discrete values would, according to the SAA, cost £7.5 million to £8.5 million.”

The Commission concluded on this matter that—

“Property taxes are ideally based on regularly and frequently updated valuations. However, our analysis shows moving from the present 1991 values used for Council Tax would of itself change the liabilities for many. This, and the evidence from overseas, indicates that whilst desirable, an initial revaluation of properties would be politically challenging to deliver.”

The Commission on Local Tax Reform, although not recommending a single course of action, did model an alternative structure for the ratios of Council Tax bands. The Commission’s approach was to set the multipliers relative to
the current spread of house values between Band A and Band H, as informed by the Commission’s “Transaction Data Model”. The Commission stated that this would make the Council Tax “proportionate rather than regressive with respect to its property tax base.”

The petitioner states—

“The SNP has added tax on to the highest council tax bands. Their policy was to impact on people in bigger houses. Unfortunately the current council tax bandings are out of date. No property in Scotland is valued at £40,000. As I live in a new-build flat valued at £175,000, we are classed as a high council band. But I live in a small 2 bedroom flat - not even a house.”

Scottish Government Action

In March 2016, the Scottish Government published its proposals (Scottish Government 2016a) for reform of the Council Tax, in response to the Commission’s report. This focused primarily on an adjustment to the ratios against Band D of Bands E-F, which the Scottish Government estimated would generate £100m a year. The Scottish Government also included proposals to extend the Council Tax Reduction Scheme, and to end the Council Tax Freeze which had been in place since 2008. Councils would have the opportunity to raise the B and D rates by up to 3%.

The Scottish Government did not, as part of proposed reforms, suggest an exercise to revalue properties, so Council Tax will remain based on 1991 property values.

A draft order to enact the proposed changes, The Council Tax (Substitution of Proportion) (Scotland) Order 2016, was laid before the Parliament on 7 September 2016.

Scottish Parliament Action

The Local Government and Communities Committee published its report on scrutiny of the Council Tax (Substitution of Proportion) (Scotland) Order 2016 on 28 October 2016. A number of submissions to the Committee’s call for views raised the issue of revaluation. This was raised in evidence with the Cabinet Secretary for Finance and the Constitution, who said—

“With regard to what revaluation could achieve, in practice it would take time, be costly and put extra uncertainty into the system, which could for many households result in a shock that they would not be prepared for. As I think the commission found, there would also be a rebalancing issue with regard to geography and tax take. A number of factors would come into play in a full-scale revaluation.
Revaluation would be a shock for many; there would be an administrative cost and it would take time to implement. I do not think that it would be particularly welcome, and the commission reported that it would be very challenging.”

The Committee concluded in its report that—

“The Committee notes the evidence from a number of organisations on the need for a revaluation. We welcome the Scottish Government’s commitment to continuing the conversation on local tax reform. We consider that any future change on the issue of revaluation would require political agreement. We would welcome an early update from the Scottish Government on these matters.”

In its response to the Committee’s report, the Scottish Government said—

“The Scottish Government is aware of the points raised about revaluation in the Committee’s evidence sessions and concurs with the view that any future change on the issue of revaluation would require political agreement as it would require secondary legislation - an Order-subject to the affirmative procedure and therefore requiring approval by Parliament.

Because of the potential impact on households and the administrative cost it would incur, the Scottish Government has no plans to revalue properties for Council Tax purposes.”

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